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ABSTRACT

This paper examines the development of the Merchandising Management Program at Michigan State University and the development of a teaching module which focuses on the shifting economies in eastern Europe, particularly Poland, as they change from command to market economies. An overview of Polish retail trade required the development of a study to gain baseline data for the module because of the lack of current information. Also, a step-by-step process is given on how this baseline information was collected and processed, including trips to Moscow, Warsaw, and Katowice (Poland) to conduct interviews with retail owners/managers/directors and government officials. The interviews assisted in comparing retailing under the new economic approach with that of the old. Creation of the module also involved summarization of the data collected and the creation of visual materials for classroom presentation. Appendices include the questionnaire used in data collection, and the pretest used to determine the student's existing knowledge of Poland and the former Soviet Union. Contains 12 references. (GLR)

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# Development of a Teaching Module on Soviet and Polish Retail Distribution Systems

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Development of a Teaching Module on Soviet and Polish Retail Distribution Systems

Internationalization of the Merchandising Management Program

The Merchandising Management program at Michigan State University focuses on the retailing system as it affects human resource development and the national and international economy. Currently, the domestic retail environment is characterized by intense competition in a no-growth economy. International markets will provide opportunities for businesses in the next decade. In Megatrends 2000, Naisbitt discusses the potential for eventual free trade among nations and the rise of the Pacific Rim as unparalleled opportunities on which businesses may capitalize. To increase profitability and to differentiate themselves in this challenging economic environment, retail firms are currently sourcing a larger and larger percentage of their products internationally and identifying opportunities for expansion in international markets. For students to be competitive in this retail job market, exposure to and awareness of international trade issues, product sourcing and human resource issues in an international setting is becoming more critical. Cavusgil (1991) identifies several areas of academic preparation for students including development of cultural empathy, acquisition of foreign language skills and an exposure to international dimensions of business.

While the Merchandising Management program at Michigan State University has a 25 year history of preparing students to compete for jobs in the national environment, Merchandising Management's

foray into the international arena has spanned only the last 8 years. In the early 1980's the Merchandising Management faculty began to develop international research and teaching agendas in order to prepare students for the shifting expectations related to international product sourcing, product development and working with a culturally diverse workforce. The internationalization model selected by the faculty was to develop specialized international courses. International Buying and International Human Resource Management were the first two such courses developed. As additional faculty with an interest in international retailing were added, a third course on International Consumer Distribution Systems was developed to broaden the focus on international retailing and to increase the demand for a course with international content. Funding to develop this course was provided by International Studies and Programs at Michigan State University through a curriculum development grant.

Topics covered in the International Consumer Distribution Systems course include cross cultural differences, global franchising, technology transfer of retail innovations and distribution systems in western European and Asian countries. Because of the extraordinary developments in eastern Europe and the Soviet Union since 1989 and the shift of those economies from command to market economies, a segment of this course is devoted to retail distribution systems in these countries.

A decision was made to focus on Poland and the former Soviet Union because the sweeping economic and political changes occurring

there offer opportunities for Western economies to become more significant trading partners with these countries. For example, in 1990 U.S. exports to the USSR were $3.088 billion and exports to Poland were $406 million (Department of Commerce, 1990). If Western manufacturers are to be successful in trading with Polish and Russian businesses, an understanding of the distribution system and retail structures is essential. More specifically, knowledge regarding the buying function and the interaction of sellers and buyers within the distribution channel will aid Western businesses in positioning themselves to the opening of these markets.

Success of new political systems in the new Commonwealth of Independent States (CIS) and Poland hinges on the ability of the market to provide desired goods and services to its people. As the CIS moves toward a market system, and Poland adapts to its new market economy it is critical to examine the supplier/buyer relationships, service structure, pricing policies, location decisions and promotional strategies of retail businesses in these countries. An understanding of these business strategies will facilitate the transfer of technology and management expertise from western economies.

Current English translations explaining the internal operations of the Soviet retail distribution systems do not exist. It is vital for students to understand how a retail distribution system operates under a command economy and how this affects the availability of products and the entire shopping experience of the average consumer.

## Background of Retail Distribution

A review of the existing literature reveals a basic description of the structure of Polish and Soviet retailing as it was structured under the command economy (Burt & Sparks, 1988; Goldman, 1960; Katsenelinboigen, 1977; Walters, 1964):

### Soviet Retailing

Prior to August 19, 1991 three main retail trade sectors existed in the former USSR (Goldman, 1960). The first sector includes centrally administered, government owned stores (department and specialty). Prices in these stores are set by the state; location is determined by distance from place of residence and economic effectiveness (Widdows, Feinberg & Roze, 1990). The second network, cooperatives cater to a wide variety of consumer needs and are viewed as a way to introduce the concept of capitalism. Cooperatives number an estimated 133,000 , employing 3 million people (Galuska, 1989). The quality of products available at cooperatives is generally superior to the state owned outlets; prices tend to reflect this, and are often as much as three times higher than in the state owned stores. The third sector consists of hard currency shops, known as biriozka, and feature products generally unavailable elsewhere such as imported goods or luxury items; however, the average citizen rarely has access to this retail outlet because only hard currency is accepted for payment.

Two other modes of retail distribution include the commission shop and private import of goods. The former allows the sale of previously purchased commodities for a commission charged to the

seller and private import of goods. In addition, the black market flourishes (Katsenelinboigen, 1977; Galuska, 1989).

Polish Retailing

Historically, the retail sector in Poland has been divided into three trade sectors. The first sector, cooperatives, pay taxes and have operating profits. Cooperatives comprised approximately 68 percent of the total retail trade in Poland. Food is the primary product being sold through these outlets (Burt & Sparks, 1988; Galuska, 1989). Rural cooperatives are controlled at the regional or local level and are members of a National Council of Co-operative organizations (Burt & Sparks, 1988; Walter, 1964). The rural cooperatives were primarily concerned with the food trade and performed all channel activities. Urban cooperatives also operated food chains, but the supply source was typically the state wholesaling enterprises.

Government/state retail trade, the second sector, comprised 17 percent of the total trade network in 1985 (Burt & Sparks, 1988). These stores, highly specialized by commodity line were controlled by Ministry of Internal Trade. This form of retail ownership is rapidly disappearing, comprising only 6% of the retail outlets in Poland, down from 17% two years ago (Styczek, 1991). In Poland, hard currency shops owned by the government (formerly, Pewex) have all but disappeared in the past two years.

The third sector, private shops, accounted for 14.5 percent of the total number of retail shops and include both food and non-food trade (Burt & Sparks, 1988). Each owner was a member of a

voivodhship (county) organization. Retail space for this type of shop was tightly controlled prior to the economic reforms.

After the implementation of Poland's economic liberalization program over 60,000 shops have been bought or leased in the past 18 months in the newly emerging private sector. These businesses contribute as much as 40% of Poland's GDP. Two thirds of these businesses are retail, distribution or transport businesses (Economist, 21, Sept. 1991).

While the information provided above provides a basic overview of these retail distribution systems, most of the literature is 10-20 years old and the current literature is anecdotal in nature, providing few insights into the changes in organizational operation, procurement strategies, pricing policies, promotional and service strategies that have occurred during the transformation of these economies. Current, in-depth analysis of the former Soviet and Polish retail systems are non-existent, therefore it was necessary to design a research study to gather baseline data on this topic.

Development of the Teaching Module

The following student learning objectives were defined: After completion of the teaching module on retail distribution systems in the former USSR and Poland, the student will be able to:

1. Discuss the relationship of the economic and political systems in the former USSR and Poland and the development of their retail distribution systems.
2. Identify at least 2 similarities and differences



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between the Polish and former Soviet retail sectors.

3. Draw comparisons between the Polish and former Soviet retail organizational structures and retail structures found in U.S. retail stores.

4. Discuss at least 3 changes that have occurred in the retail sectors of both countries in the past 2 years.

In order to gather the baseline data, the author visited Moscow, Warsaw and Katowice, Poland in August, 1991. Specifically, the author was interested in gathering qualitative data on the structure and process used to procure merchandise for retail stores, organizational structure and demographic information on the executives interviewed.

Prior to the trip, research colleagues in both Moscow and Katowice were identified and contacted. A research agenda was communicated through mail. Each colleague made arrangements for interviews with retail executives and government officials and arranged for the translation of the questionnaire.

While in Poland and Moscow, the author conducted a series of 20 interviews with retail owners/managers/directors and government officials. Each respondent was asked a series of open-ended questions (see Appendix 1) regarding retail organizational structure, product procurement procedures and demographic data. Each interview was conducted in either Russian or Polish, lasting approximately one to one and a half hours with an interpreter present. Retail executives from the following types of organizations were interviewed: state-owned outlets, co-operatives,

private enterprises, and foreign joint-ventures. Additionally, videotape footage of the interior of two department stores in Moscow (GUM and Detskii Mir), and a gastronom (grocery store) were gathered to provide visual evidence of merchandise assortment, service and visual merchandising.

The data were summarized by the author and analyzed to provide a comparison between operations under the new economy and the old economy. The results of these interviews indicated that there are some similarities to the product procurement processes used by large retail organizations in the U.S. Specifically, the person responsible for "buying" merchandise is usually in middle management in the organizational structure, has had from 5 to 10 years of previous retail experience and tends to be female. The shift to a market driven economy is also having an effect on the product procurement process in the state owned retail outlets; for example the "buyer" has the freedom to source approximately 25% of their merchandise from small enterprises or foreign companies. More changes in the product procurement process are expected to occur as a result of the changing economic environment.

To develop visual materials for the International Consumer Distribution class, an outline of the key political and economic characteristics and retail distribution structure for both Poland and the former Soviet Union developed. The author assumed that the students enrolled in International Consumer Distribution Systems would have very little prior knowledge of either the former Soviet Union or Poland. The outline was organized into a series of

transparencies to enhance the classroom presentation. Using Harvard Graphics 3.0 and the Hewlett Packard Deskjet 500c color printer, the transparencies were developed into color slides to be used on the overhead projector (see Appendix 2 for an example).

Transparencies were developed to summarize the sales volume of the stores, to provide an overview of the organizational structure and outline current trends in retail distribution in both Poland and the former USSR. The author also developed a table which provides a comparison of the retail distribution systems in both countries by comparing them on the basis of the marketing mix (product, price, location and distribution).

To determine the students existing knowledge of Poland and the former Soviet Union a short, objective pretest was constructed to provide a basis for discussion. Discussion will assist students in clarifying the content presented and retain more information (Zenger & Zenger, 1977) and will pique their interest in the topic (see appendix 3). Using a combination of lecture and discussion, enhanced by the visual materials (videotaped footage and overhead transparencies) the students will be able to achieve the learning objectives of this teaching module.

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Appendix 1: Questionnaire

Store: Date:

Address:
Interviewee:
Position:
Sales volume:_____ Rubles
Type of company:_____

Personal Background

What kind of experiences did you have before you took this position?
Educational background:
Positions/years spent in the company:
Other international experiences:
How long have you been in this position?
How were you selected for this position?
What do you see as your future career path?

Organizational Structure

What is the history of this company? (ex. How old; state owned vs. privately owned)
What is the formal organizational structure for your company?
Are there separate career tracks for management and buying or do people move back and forth to get a broader range of experience?
How many other stores are a part of this organization?
Where are they located?

Personnel Performance Appraisal and Review

What percent of your employees are hired:
_____ directly out of high school _____ directly out of college

_____ from other employers _____ do not know
What is the hiring process in your store?
Do you have any non-Soviet employees? If so, what type of criteria do you use to hire and evaluate them?
Is this criteria different from that used to hire and evaluate Soviet employees?
What percent of your employees have: _____ college degree _____ no college degree _____
Age:
_____ under 30 _____ 30-40 _____ 40-50 _____ 50-60 _____ over 60

Merchandise Buying

How are goods typically purchased for resale in your store?
Who is responsible for purchasing these goods?
_____ Department managers _____ Buyers _____ Other
Is there a position where someone is responsible for buying or ordering goods to sell?
Is the buying or ordering of merchandise centralized or decentralized?

How many years of experience do employees have before becoming a buyer?
Do you have different levels of buyers (eg. central buyers, department buyers)?
Do department mangers have influence in the type of merchandise carried in their department?
Do you carry any merchandise that is sold on consignment (i.e. manufacturer owns the goods)?
Does your company have private label products?
If so, who produces these private labels for you?
What proportion of total sales would be private labels?
Do you contract with suppliers to produce merchandise specifically for your store?
What is your greatest challenge in buying merchandise for your store?
Do you import any merchandise? If so, what types of merchandise?
Where do the majority of your imports come from?
How much freedom do you have to select suppliers?
What criteria do you use in selecting foreign suppliers?
What kinds of merchandise would you like to import?

Inventory Control

How do you keep track of your inventory?
Whose responsibility is it to keep track of the inventory?

U.S. Manufacturers Relations with Soviet Retailers

Have you dealt with U.S. manufacturers? In what product areas?
What do you see as being the major problems in dealing with U.S. manufacturers? How about strengths?
What suggestions would you give to Americans who want to do business with the Soviet Union?
What type of American products do you think could be successful in the Soviet
Union?
Does your store use any form of advertising?
If so, what kind (T.V., radio, newspaper). Examples.

**Store Environment Observations**

Service: (kassa system, self service, sales consultants)
# of salespeople
product knowledge

**Products**

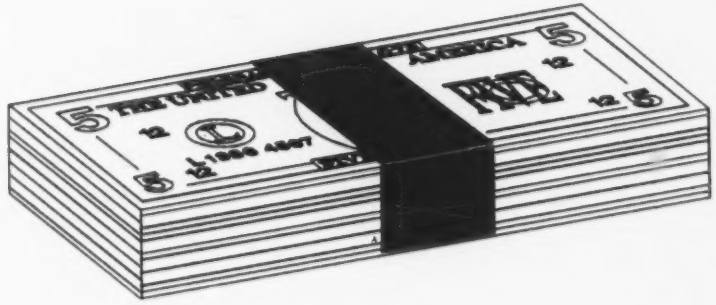
Variety/assortment of products
quality
brand name availability

**Display**

lighting
store layout
types of fixtures

# COMMISSION SHOP

- SALE OF PREVIOUSLY PURCHASED COMMODITIES
- "LEASED" SPACE IN SOME DEPARTMENT STORES



Appendix 3
Pretest

1. How long does the average Russian have to stand in line to buy what is necessary to prepare a meal?

a. 30 minutes
b. 1 hour
c. 1.5 hours
d. no lines

2. Who owned the majority of department stores in the former Soviet Union?

a. stores were independently owned
b. stores were owned by a parent company similar to Federated Stores
c. stores were owned by foreign conglomerates
d. stores were owned by the government

3. If you want to buy a pack of Marlboro cigarettes in Moscow, where would you go?

a. biriozka
b. department store
c. gastronom
d. black market

4. You are having guests for dinner and you want to buy the best fresh vegetables available. The best place to go is in Moscow is:

a. gastronom
b. department store
c. kolkhoz (farmer's market)
d. biriozka

5. You are visiting Moscow for the first time and plan to shop in GUM, their largest department store. Which of the following would you expect to happen?

a. poor service, rude sales clerks
b. standing in several lines to pay for and pick up your purchases
c. lack of dressing rooms to try on apparel
d. inability to examine products without the aid of a sales clerk

6. How long does the average Polish citizen have to stand in line to buy what is necessary to prepare a meal?

a. 30 minutes

b. 1 hour
c. 1.5 hours
d. no lines

7. You are in Warsaw for the first time and wish to buy a pack of Marlboro cigarettes. Where would you go?

a. grocery store
b. street vendor
c. delicatessen
d. department store

8. Prior to the economic reforms Poland in 1990, who owned most of the major department stores?

a. the employees
b. the government
c. a larger parent company, like Federated
d. foreign conglomerates
e. cooperatives

9. Who owns most of the major department stores in Poland?

a. the employees
b. the government
c. a larger parent company, like Federated
d. foreign conglomerates

10. Which of the following goods is most likely to be in short supply in Poland?

a. meat
b. cigarettes
c. apparel
d. fresh produce
e. no shortages of goods exist